

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57137; File No. SR-CHX-2007-24)

January 14, 2008

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of a Proposed Rule Change as Modified by Amendment No. 1 Thereto Relating to the Handling of Clearly Erroneous Transactions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 4, 2007, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. On January 7, 2008, the CHX submitted Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its rules regarding the handling of “clearly erroneous” and other transactions. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and www.chx.com.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange states that its rules currently allow the Exchange to cancel a trade, or modify the terms of a trade, when the terms of the trade are determined to be “clearly erroneous” or when other circumstances (including a CHX systems problem) require that that action be taken for the maintenance of a fair and orderly market or the protection of investors and the public interest.³ The Exchange notes that other exchanges have similar rules.⁴

The Exchange states that as it has gained experience in the operation of these rules, it has identified, and is now proposing, several changes to the rules' provisions.

First, the Exchange seeks to extend, from 15 to 30 minutes, the time for filing an initial written request for review of a potentially “clearly erroneous” trade. As part of this change, the Exchange would also eliminate the arguably duplicative requirement that a participant also notify the Exchange by telephone of its intent to seek review. Together, the Exchange believes that these changes would streamline the process for filing a review request under these rules.⁵

³ See CHX Rules, Article 20, Rule 10 (“Handling Clearly Erroneous Transactions”) and Rule 11 (“Systems Disruptions and Malfunctions”).

⁴ See, e.g., Nasdaq Rule 11890 (“Clearly Erroneous Transactions”); NYSE Arca Equities Rule 7.10 (“Clearly Erroneous Transactions”).

⁵ The Exchange notes that extending the time for filing a complaint to 30 minutes is consistent with the rules of at least one other exchange. See Nasdaq Rule 11890(a)(2)(A)(ii) (giving members 30 minutes to submit written complaints for transactions that are executed before 9:30 a.m. (Eastern Time) and at or after 10 a.m. (Eastern Time)).

Additionally, the Exchange would establish specific thresholds for determining whether or not the terms of a transaction are eligible for review under the clearly erroneous rules. Under these thresholds, a trade would be found to be eligible for review if: (a) for a trade where the price per share is less than \$1.00, the execution price is 20% or more away from the midpoint of the national best bid and offer (“NBBO”); or (b) for a trade where the price per share is equal to or greater than \$1.00, the execution price is 10% or more away from the midpoint of the NBBO. The Exchange believes that these easily-applied standards set reasonable thresholds for determining whether or not a transaction should be eligible for review.⁶

Another proposed change to the CHX’s rules would eliminate one of the two levels of appeal that can be taken from an initial Exchange determination that the terms of a trade should be modified or that the trade should be cancelled.⁷ Under the existing rule, the Exchange’s initial decision may be appealed to a subcommittee of the Committee on Exchange Procedure and the subcommittee’s decision may be appealed, in turn, to the full Committee on Exchange Procedure.⁸ Through this filing, the Exchange proposes to eliminate the appeal to the full

⁶ These eligibility requirements would only apply to trades for regular-way settlement during regular trading hours. See Proposed CHX Article 20, Rule 10(b). Among other things, the application of these standards would give participants certainty about whether or not a particular transaction would be eligible for review under the clearly erroneous rules and would allow the Exchange to focus its resources on addressing situations where more significant harm has potentially occurred.

⁷ See Proposed Article 20, Rule 10(d). The Exchange also would make corresponding changes to Article 2, Rule 5, relating to appellate rights arising from subcommittee decisions, to confirm that the decision of the subcommittee is final and that the Exchange’s initial decision is not stayed pending any appeal to the subcommittee.

⁸ A subcommittee of the Committee on Exchange Procedure is composed of members of the full Committee on Exchange Procedure.

Committee. The Exchange believes that its proposal brings the Exchange's procedures in line with those in other markets.⁹

The Exchange amended its original filing to, among other things, include changes to Article 2, Rule 5, to ensure that this rule language is consistent with the changes proposed in Article 20; describe the composition of a subcommittee of the Committee on Exchange Procedure; and make other more minor adjustments to the rule text. Additional descriptions were added to the narrative, as appropriate, to address changes that were made to the rule text.

Finally, the Exchange would be given the discretion, in situations where it is acting on its own initiative to respond to systems disruptions or extraordinary market conditions or other circumstances, to determine that the number of affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. This determination would provide certainty to participants whose transactions were affected by decisions in these unusual situations.¹⁰

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹² in particular, in that it is designed to promote just and equitable principles of trade, remove impediments to and

⁹ See Nasdaq Rule 11890(c) (providing for an appeal to the Market Operations Review Committee); NYSE Arca Rule 7.10(c)(2) (providing for an appeal to the Clearly Erroneous Execution Panel).

¹⁰ The Exchange notes that other markets have included a similar provision in their rules. See Nasdaq Rule 11890(c)(1); NYSE Arca Rule 7.10(c)(2).

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

